

Executive Order Reduction
December 5, 2002
Director Gilmer's Comments
(12/5/2002, 8:20 AM)

I am here on behalf of Governor Engler to ask for your concurrence in Executive Order 2002-22 and your support for a spending reduction plan that is necessary to bring the fiscal year 2003 general fund budget into balance. I am asking that you -- as members of the Michigan Legislature -- join Governor Engler in your shared Constitutional obligation to fulfill the requirements of Article V, Section 20 to maintain a balanced budget. Simply put, we cannot spend more than we have in available revenues.

I never imagined I would need to return to you again to seek concurrence on yet another reduction strategy.

The Governor's original fiscal year 2003 budget recommendation, 10 months ago, was predicated on a conservative January general fund revenue estimate of \$8.72 billion. In May, when we reviewed revenues again, general fund revenues had dropped to \$8.40 billion -- resulting in the need to revise the budget and lower spending by approximately \$300 million. I thank each of you before me for your assistance in closing that budget gap. However, close examination of our revenues in November reveals that state revenues are down yet again to levels not seen since 1996.

Unfortunately, more budget reductions are necessary. Today, we are 2 months into fiscal year 2003 and despite our best efforts, we face an estimated \$460 million dollar shortfall.

There has been much discussion over the past weeks surrounding a projected deficit in the fiscal year 2003 general fund budget and proposals to balance the budget. After consultation with the Legislative Leadership, we have a budget reduction package that not only brings spending back in line with available revenue but preserves critical state services. I urge prompt

action by this body. The longer we wait, the greater the negative impact on valued state programs, services and employees.

There are two major components to the reduction strategy, Executive Order 2002-22 and a supplemental appropriations bill - House Bill 5705. The Executive Order cuts total \$337 million. The supplemental appropriations bill generates an additional \$64 million in savings. And the enactment of a statutory change to the Health Advance Prefunding Reserve generates an additional \$58 million. The total reduction package before you equals approximately \$460 million.

The majority of the proposed budget changes are based on permanent budget reductions and the use of ongoing restricted funds. The package relies on limited use of one-time solutions. After adoption of the Executive Order, the transfer package that describes how agencies are proposing to absorb these budget reductions will be available for consideration by the appropriations committees. I will also be talking later about further legislation needed to complete this budget balancing strategy.

Highlights of the Reduction Strategy

The Executive Order I am presenting today continues the Governor's and Legislature's commitment to our public schools. The Executive Order leaves the budget for School Aid untouched.

To help generate the savings necessary, we are recommending budget reductions for every state agency. In most cases, these Executive Order reductions equal 2.5 percent. These reductions, which total \$107.4 million, are in addition to the 1 percent cut already imposed on agencies in the fiscal year 2003 budget enacted in July and the budgetary savings generated by early retirements. If the Executive Order is adopted, every state department with few exceptions will face a total reduction of at least 3.5 percent. These exceptions include the Department of State Police, which will be reduced in this Executive Order by an additional 1.5 percent (for a total of 2.5 percent

reduction when added to their existing 1 percent reduction). The departments of Corrections, the Family Independence Agency and Military Affairs will be reduced in this Executive Order by 1 percent for a total reduction of 2 percent. The Michigan Strategic Fund will be reduced by \$3 million or 6.7 percent.

Under this package, funding for the Judicial and Legislative branches would also be reduced 2.5 percent in the supplemental bill now awaiting Senate floor action.

As you recall, higher education was spared from the last round of budget cuts. This is the first higher education reduction in 12 years. Unfortunately, we cannot continue to shelter universities and community colleges from reductions in state support. Today, we propose a reduction of 2.5 percent, or \$53.3 million, for community colleges and higher education institutions. It is our hope that universities will not use this as an opportunity to substantially raise tuition and enrich themselves. If they do, I am quite sure that they will have to deal with the wrath of parents, the new Legislature and the new Governor. I urge colleges and universities to use great restraint.

In this Executive Order reduction strategy, the Governor also recommends a \$53.1 million reduction in payments to local governments. Companion legislation is proposed that would change the State Revenue Sharing Act to ensure that all local units of government are reduced by the same percentage of 3.5. By applying the reduction to the actual payment to the locals, every community will receive 96.5 percent of their 2003 appropriated level. If this companion legislation is not adopted, the funding reductions will be distributed based on the current revenue sharing formula. Failing to adopt this legislation will result in a larger cut to those municipalities that comprise a majority of our core cities and counties. Between 10:30 - 11:00 a.m. today, the Department of Treasury's website will

reflect these proposal changes in revenue sharing. I encourage interested parties to visit: www.michigan.gov for this information.

Other changes recommended in the Executive Order include reducing state funding for fire protection grants to local communities to 50 percent of 2003 levels, freezing enrollment in the home and community-based waiver program and increasing the state's claim of the Temporary Assistance for Needy Families.

If the budget reduction strategy is adopted, \$58.2 million from the Health Advance Prefunding Reserve will be used to continue valuable programs formerly funded with general fund revenues. I want to be clear that this will no way negatively impact current or future retirees. The health reserve is not required by Federal Law or by the Internal Revenue Service.

It is crucial that we use all untapped resources to avoid further reductions to valuable programs and services supported by general funds. Your assistance is necessary in moving legislation forward that will allow the use of restricted funds to cover general fund shortages where possible. For example, in the Department of Community Health, we propose using \$24 million in unappropriated Healthy Michigan Funds to continue valuable programs and using \$2.9 million in new federal funds to cover some of the costs of the Maternity Outpatient Medical Services program (MOMS). In the Department of Environmental Quality, we propose using \$400,000 in Great Lakes Protection Fund dollars to support the Office of the Great Lakes.

The Executive Order also reduces funding for the Merit Award Scholarship Program by \$50 million. This can be achieved without harming students by adopting statutory language to pay the \$2,500 scholarship over a two-year period instead of the current one-year payout. Via the supplemental, we propose using Cleanup and Redevelopment Funds to pay our Environmental Bond debt and transfer \$7.8 million of unallocated waterways funds to the general fund.

Many of these decisions are very difficult, and you may think the answer still lies in our Rainy Day Fund or other fund balances. Our past investments in the Budget Stabilization Fund have paid great dividends, allowing the state to sustain critical programs through 3 difficult fiscal years.

While the enacted fiscal year 2003 budget was predicated on a BSF withdrawal of \$207 million, only \$144 million is available after completing fiscal year 2002 bookclosing and, as already approved by the Legislature, we will be using the \$144 million to balance 2003. Due to our continuing concerns related to rising Medicaid caseloads, we have left \$44 million in the Medicaid Benefits Trust Fund untouched and available for the next Governor and Legislature, should the need arise.

In closing, to bring 2003 spending into balance, I need your approval on the budget reduction strategy presented to you today. This includes approval of Executive Order 2002-22, approval of supplemental appropriations, and ultimately, the approval of a legislative transfer package to implement the reductions contained in this Executive Order before you adjourn for the year. Agency directors are ready to assist in this process. While this spending plan is not pretty-- it is prudent. No one wants to take these actions, but we all understand our Constitutional obligation to maintain a balanced state budget within the available resources that Michigan citizens have entrusted to us. Thank you for your time and attention this morning. I ask you to move quickly in approving this package and I stand ready to answer your questions.